

## MEMORANDUM

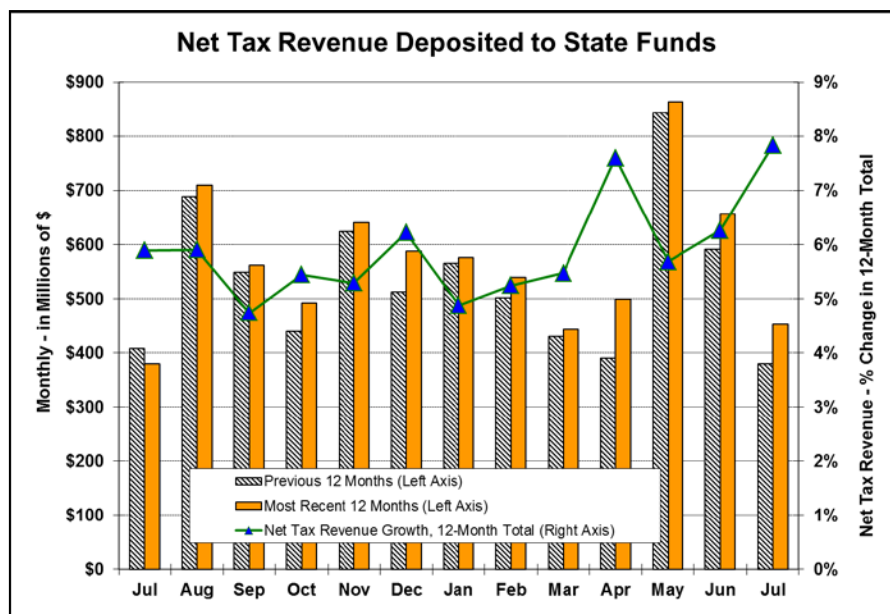
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson  
Shawn Snyder

DATE: August 16, 2012

### Twelve-month Total Net Tax Receipts Through July 31, 2012

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending July 2012 with comparisons to the previous twelve months. July 2011 to July 2012 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Overview of Current Situation

Net receipts from all State taxes increased 19.3% in July, with more than one-half of the increase resulting from calendar issues that impacted the timing of revenue deposits. At 7.8%, the annual growth rate is now higher than any time since June 2007 (8.5%). Over recent months, the weakest revenue sources have been fuel tax and franchise (bank) tax revenue.

## Month of July Comparison

July net tax receipts totaled \$452.5 million, an increase of \$73.1 million (19.3%) compared to July 2011. Major taxes and their contribution to the month's change include:

- Individual Income Tax (positive \$16.9 million, 8.3%) – Gross income tax deposits increased \$12.9 million in July while individual income tax refunds issued decreased \$4.0 million.
- Sales/Use Tax (positive \$12.9 million, 12.5%)
  - Road Use Tax Fund use tax (fee for new registration) increased \$0.7 million in July. Monthly comparisons have shown increases in 15 of the past 17 months, with nine of the months posting a percentage increase of 9.3% or higher.
  - Gross General Fund sales/use tax receipts increased \$12.8 million (9.6%), the fourth large monthly increase in a row. Regular sales tax refunds decreased \$2.1 million and school infrastructure transfers out increased \$2.7 million.
- Corporate Income Tax (positive \$34.4 million) – Deposits of corporate income tax receipts increased \$23.2 million (100.8%) in July, while corporate tax refunds decreased \$11.2 million.
- Fuel Tax (positive \$3.7 million, 9.9%) – Gross fuel tax deposits decreased \$0.4 million for the month while tax refunds decreased \$4.1 million.
- Cigarette and Tobacco Taxes (positive \$1.9 million, 10.7%)
- Gambling Tax (positive \$0.9 million, 8.7%)
- Insurance Premium Tax (negative \$0.1 million, - 10.0%)

## Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending July 2012, net revenue from all taxes deposited to State funds totaled \$7.023 billion, an increase of \$510.1 million (7.8%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$160.3 million, 5.6%) – Individual income tax continues to post good year-over-year annual growth numbers and the income tax withholding component has shown improvement recently with growth equal to 6.6% over the most recent three months.
- Sales/Use Tax (positive \$122.3 million, 5.5%) – Sales tax receipts continue to post very good gains, both for the General Fund and for the Road Use Tax Fund (vehicle sales).
- Corporate Income Tax (positive \$188.3 million, 81.3%) – Corporate income tax revenue has shown significant strength for more than a year.
- Fuel Tax (negative \$3.3 million, - 0.7%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold decreased 1.4% while taxable diesel sales increased 0.1%. Taxable diesel sales over the most recent 12-month period are 4.1% lower than the March 2008 peak diesel sales level and total taxable fuel gallons (gasoline/ethanol/diesel) are only 0.2% above the prerecession peak (August 2007) for all taxed gallons sold.
- Gambling Tax (positive \$15.4 million, 5.5%) – According to Racing and Gaming Commission statistics, five of Iowa's 18 casino/track locations recorded negative annual adjusted gross

revenue (AGR) growth for the 12-month period ending July 2012. The combined AGR growth for the 18 facilities was positive 5.6% over the previous 12-month period, with the new Lyon County casino contributing 61.2% of the AGR growth. Adjusted gross receipts for the most recent 12 months totaled \$1.463 billion.

- Insurance Premium Tax (positive \$4.8 million, 5.0%)
- Cigarette and Tobacco Tax (positive \$1.4 million, 0.6%)

### **Tax Spotlight – Motor Vehicle Fuel Tax**

Motor vehicle fuel is taxed under [Iowa Code chapter 452A](#). The tax is imposed on each gallon of fuel sold in Iowa for use in most motor vehicles and aircraft. Tax rates for July 1, 2012, through June 30, 2013, are:

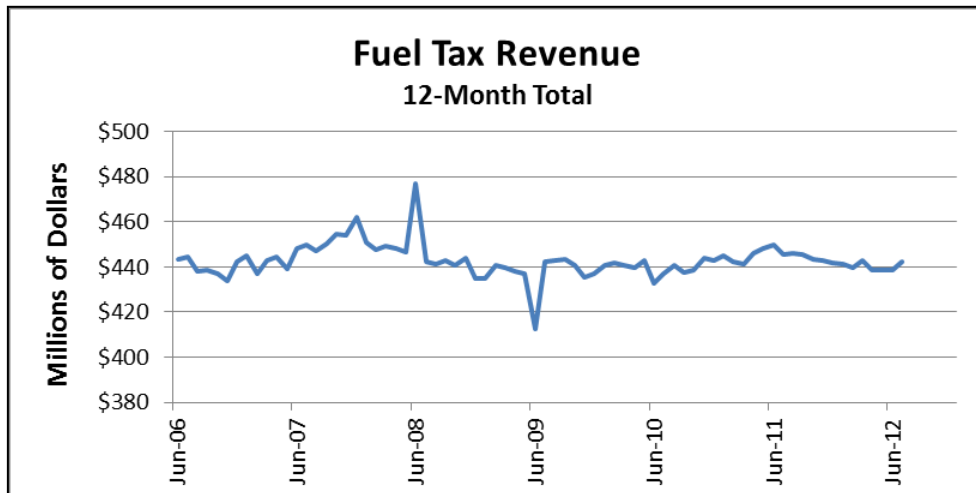
- Gasoline - \$0.210 per gallon
- Ethanol Blended Gasoline - \$0.19 per gallon
- E-85 - \$0.19 per gallon
- Aviation Gasoline - \$0.08 per gallon
- Diesel Fuel - \$0.225 per gallon
- Liquefied Petroleum Gas (LPG) - \$0.20 per gallon
- Aviation Jet Fuel - \$0.03 per gallon
- Compressed Natural Gas - \$0.16 per 100 cubic feet

Tax rates for gasoline and ethanol-blended gasoline (including E-85) are adjusted each fiscal year by the Department of Revenue and are based on the previous calendar year's ethanol-blended gasoline sales. Sellers of motor vehicle fuel must be licensed by the Department of Revenue.

The Iowa motor fuel tax was imposed in 1925 in SF 312 (Gasoline License Fee Act) at a rate of \$0.02 per gallon. The tax rates for gasoline and diesel fuel have increased periodically since enactment. In 1989, the tax rate on diesel fuel was increased to its present rate of \$0.225 per gallon and the tax rate on gasoline was increased to \$0.20 per gallon. House File 716 (Ethanol-Blended Gasoline and Related Taxes Act of 2001) established a motor vehicle fuel tax schedule. The Department of Revenue establishes the per-gallon tax rate on gasoline and ethanol-blended gasoline based on the tax schedule. The market-share of ethanol-blended gasoline during a calendar year determines the tax rate on gasoline and ethanol-blended gasoline for the following fiscal year. The tax rate per gallon could range from \$0.19 to \$0.20 on ethanol-blended gasoline and \$0.20 to \$0.21 on gasoline. The use of the tax schedule was to end after FY 2007; however the General Assembly extended the use of the tax schedule through FY 2012 in SF 601 (Standing Appropriations Act of 2007) and extended it through FY 2013 during the 2012 legislative session with enactment of HF 2472 (Motor Fuel Tax Act). Starting in FY 2014, the tax rate on gasoline and ethanol blended gasoline will be \$0.20 per gallon.

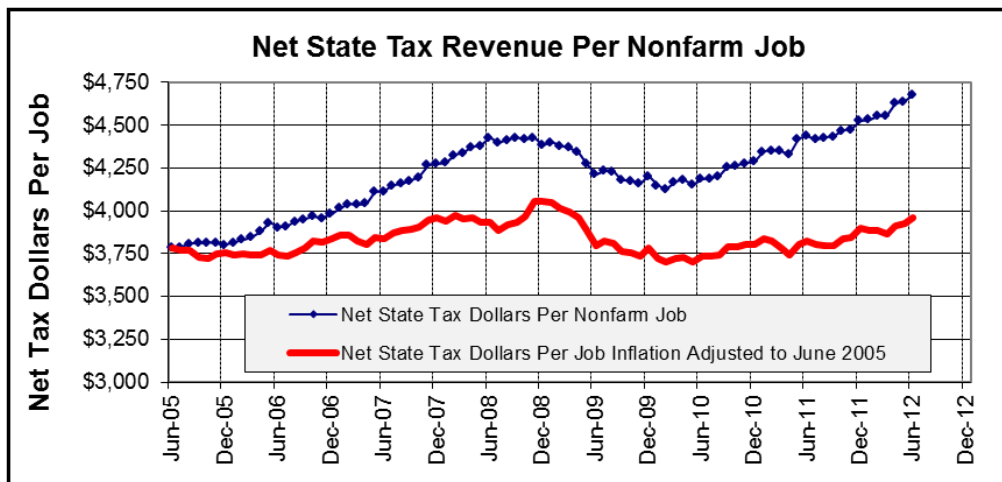
Motor vehicle fuel tax returns are filed by the licensee and are due by the last day of the month following the month when the fuel was withdrawn from its terminal. Aviation fuel tax receipts are

credited to the State Aviation Fund ([Iowa Code chapter 452A.82](#)). Starting in FY 2008, tax receipts from the sale of gasoline used in water craft are deposited in the Marine Fuel Tax Fund ([Iowa Code chapter 452A.84](#)). The remainder of the motor fuel tax revenue is credited to the Road Use Tax Fund.



### Tax Revenue and Employment

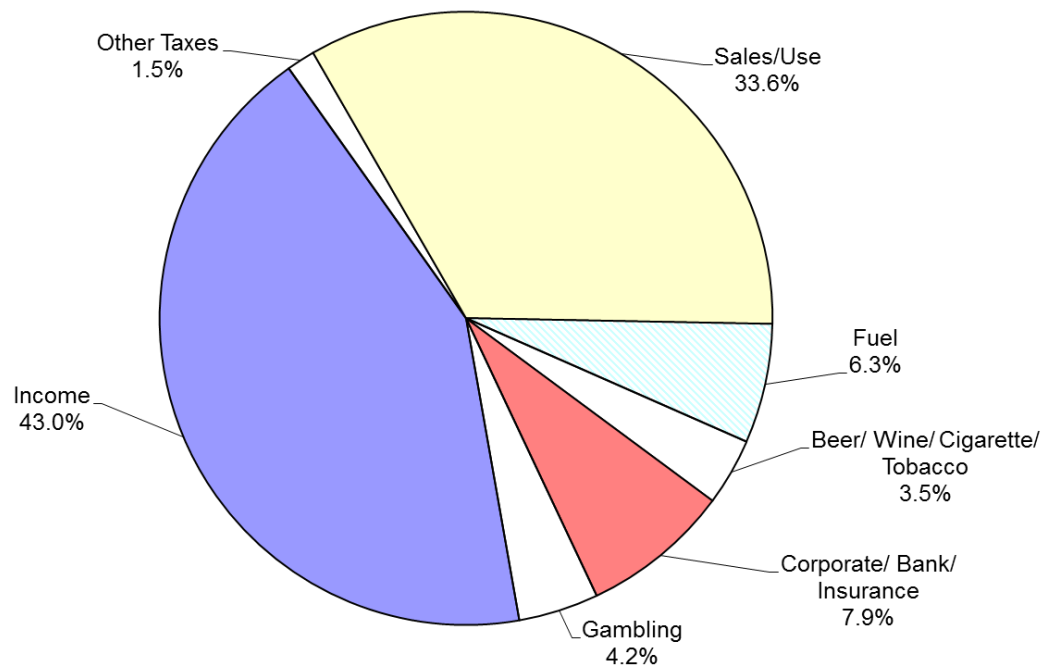
The average reading for Iowa nonfarm employment over the 12 months ending June 2012 is 1,485,700 and net State tax receipts over the same 12 months totaled \$6.949 billion, or \$4,678 per nonfarm job. This is \$893 (23.6%) higher than the per-job average for the 12 months ending June 2005. Over that same time period, inflation (CPI-U) increased 18.0%. Therefore, State tax revenue per job has exceeded the rate of inflation by approximately 0.8% per year since June 2005. The following chart provides a historical perspective of tax collections per nonfarm job (blue line) and inflation-adjusted tax collections per job (red line).



## Net State Tax Revenue - Twelve Months Ending July 2012

**Net Revenue = \$7.022 Billion**

Percentages may not add to 100% due to rounding

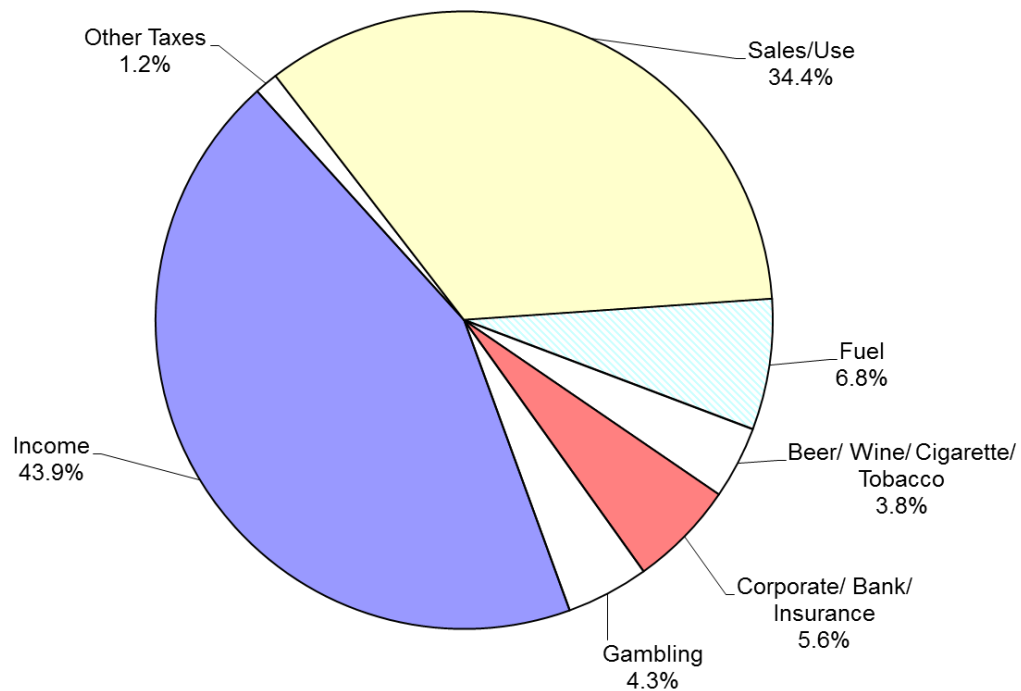


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## Net State Tax Revenue - Twelve Months Ending July 2011

**Net Revenue = \$6.512 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

<b>Net Tax by Tax Type</b>	<b>Previous 12-Month Period Total</b>	<b>Most Recent 12-Month Period Total</b>	<b>12-Month \$ Change</b>	<b>12-Month % Change</b>	<b>Month of July 2011</b>	<b>Month of July 2012</b>	<b>July \$ Change</b>	<b>July % Change</b>
Banking	\$ 35.0	\$ 30.4	\$ - 4.6	-13.1%	\$ 4.1	\$ 4.2	\$ 0.1	2.4%
Beer & Wine	21.4	21.8	0.4	1.9%	2.0	2.3	0.3	15.0%
Cigarette & Tobacco	225.6	227.0	1.4	0.6%	17.7	19.6	1.9	10.7%
Corporate Income	231.5	419.8	188.3	81.3%	- 4.5	29.9	34.4	--
Fuel	445.6	442.3	- 3.3	-0.7%	37.4	41.1	3.7	9.9%
Gambling	281.7	297.1	15.4	5.5%	10.3	11.2	0.9	8.7%
Individual Income	2,855.9	3,016.2	160.3	5.6%	202.6	219.5	16.9	8.3%
Inheritance	63.6	77.4	13.8	21.7%	5.1	5.8	0.7	13.7%
Insurance	96.5	101.3	4.8	5.0%	1.0	0.9	- 0.1	-10.0%
Other Taxes	3.4	12.0	8.6	252.9%	- 1.4	- 0.2	1.2	--
Real Estate Transfer	13.4	16.1	2.7	20.1%	1.5	1.7	0.2	13.3%
Sales/Use	2,238.8	2,361.1	122.3	5.5%	103.6	116.5	12.9	12.5%
<b>Total Net Taxes</b>	<b>\$ 6,512.4</b>	<b>\$ 7,022.5</b>	<b>\$ 510.1</b>	<b>7.8%</b>	<b>\$ 379.4</b>	<b>\$ 452.5</b>	<b>\$ 73.1</b>	<b>19.3%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 7,786.3	\$ 8,308.7	\$ 522.4	6.7%	\$ 482.5	\$ 535.6	\$ 53.1	11.0%
Tax Refunds	\$ - 1,273.8	\$ - 1,286.3	\$ - 12.5	1.0%	\$ - 103.1	\$ - 83.3	\$ 19.8	-19.2%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 5,533.5	\$ 5,909.9	\$ 376.4	6.8%	\$ 289.5	\$ 355.2	\$ 65.7	22.7%
Road Use Tax Fund	\$ 730.6	\$ 750.3	\$ 19.7	2.7%	\$ 63.6	\$ 68.0	\$ 4.4	6.9%
Non-GF Gambling	\$ 213.7	\$ 228.3	\$ 14.6	6.8%	\$ 10.1	\$ 11.0	\$ 0.9	8.9%
Other State Funds	\$ 34.6	\$ 133.9	\$ 99.3	287.0%	\$ 16.2	\$ 18.2	\$ 2.0	12.3%
<b>Local Option Taxes *</b>	<b>\$ 814.4</b>	<b>\$ 857.4</b>	<b>\$ 43.0</b>	<b>5.3%</b>	<b>\$ 80.4</b>	<b>\$ 81.9</b>	<b>\$ 1.5</b>	<b>1.9%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

## Tax Categories Used in Table

**Franchise (Bank) Tax:** The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund.

**Corporate Income Tax:** All corporate income tax is deposited in the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bonds Subsidy Holdback Fund, and the Revenue Bonds Debt Service Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited in the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited in the State General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% by FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

**Sales/Use Tax:** General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

## Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.